

# City of Rockville Retirement Board

February 18, 2011

**PRESENT:** Alex Espinosa, Chairperson; Mark Pierzchala, Councilmember; Anita McCombs, AAME Representative; Kyle France, Union Representative; Cpl. Chris Peck, FOP Representative; and Carlos Vargas for the City Manager. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Tim Peifer, Financial Systems Manager; Daisy Harley, Personnel Administrator; Debra Yerg Daniel, City Attorney; Daron Balot, Human Rights Commission; as well as Amy Heyel and Taylor Benson, Segal Advisors.

The meeting commenced at 10:00 a.m. with introductions. Mr. Espinosa requested that the agenda items be reordered so that the items requiring motions and votes are taken care of first due to the fact that he needed to leave the meeting early.

## **I. Approval of Minutes November 19, 2010:**

Councilmember Pierzchala moved to accept the minutes. Mr. France seconded. All were in favor. Councilmember Pierzchala requested that the minutes be completed and distributed within a month after the meeting as well as be sent in the Board agenda packet prior to the next meeting. Mr. Cohen said that could be done.

## **IV. Divestment from Sudan:**

Mr. Espinosa requested Mr. Cohen to introduce this item and walk the Board through it. Mr. Cohen explained that this would be going before the Mayor and Council to consider adopting an ordinance to disallow investments in Sudan. He said there will also be a couple of action items from this and that it will be discussed by the Mayor and Council at the February 28, 2011 meeting. Mr. Cohen distributed a draft statement written by the Chairperson, Mr. Espinosa, outlining what the Board's responsibility is to handle this item. Mr. Cohen said that the Mayor and Council would be looking for the Board's view on whether to adopt the legislation. He said that the legislation that the Mayor and Council will be looking at applies only to separate investment accounts, and not commingled funds nor mutual funds. The only currently applicable fund is with Manning and Napier, for the retiree benefit trust. He said that the Board has limited exposure. He said the process the Board is following now, is similar to the process the county followed. The real action item is to look at the draft statement and see if it is representative of what the Board would like to express to the Mayor and Council. Councilmember Pierzchala requested a few moments to read the statement. Next Mr. Balot from the Human Rights Commission spoke. He said he would not like any City monies invested in a country that commits genocide. Mr. Cohen stated that if the Mayor and Council would support legislation they would have the ordinance drafted by the City Attorney for their consideration. Mr. Espinosa said the County's Retirement Board defines its fiduciary responsibilities in law whereas the City's Retirement Board defines its fiduciary responsibilities in the City's investment policy, and the City's policy is to follow ERISA policy which specifically precludes consideration of non-economic factors in making investment decisions. Councilmember Pierzchala wants to know if this is a symbolic gesture. He said that the money that would go to Sudan from us is a minimal amount if any. He said if it is nothing more than symbolic then he would prefer not to do anything at this point. Mr. Cohen said that the movement of pension funds is constrained by the benefit index and believes it would be symbolic at this time due to current lack of exposure. Mr. Balot spoke again and said that he did not want any more money to go to Sudan. (The Board reviewed a memo from Segal Advisors with language for consideration regarding the Divestment in Sudan to be adopted in the Investment Policy Statement should the Mayor and Council choose to adopt the new proposed legislation.) Councilmember Pierzchala made a motion to send the statement from the Board to the Mayor and Council as prepared by Chairperson Mr. Espinosa. Cpl. Peck seconded it. All voted in favor.

## **VII. Pension Plan Amendments:**

Mr. Cohen went on to explain the rationale for each of the plan amendment changes. The Board discussed each change, made some clarifying adjustments, chose not to forward the change related to final average earnings. Councilmember Pierzchala made the motion to recommend these amendments, after the suggested changes have been made, to the Mayor and Council. Cpl. Peck seconded it. All voted in favor.

Mr. Espinosa left the meeting at 11:00 and Councilmember Pierzchala took over to chair the meeting.

## **II. Investment Performance Review 4th Quarter End December 31, 2010:**

Ms. Heyel and Ms. Benson reviewed and discussed the fourth quarter performance results for the Defined Benefit Plan and for the Thrift Plan as well as addressing the Temporary Asset Allocation Memo regarding the Pension Plan.

Ms. Heyel started with the Pension Plan (Defined Benefit Plan) Report. She stated that as of December 31, 2010, the Pension Plan assets were valued at \$56.8 million, which was an increase of approximately \$2.7 million for the recent quarter. Approximately, \$4.3 million represented investment gains and approximately \$1.7 million were net withdrawals. It was noted that at the beginning of December, 2010 \$870,000 was transferred from the Principal portfolios to Prudential to cover quarterly benefit payments as well as to serve as a reserve for the benefit payments and qualified plan expenses beginning January 2011. For the one-year period, the Fund outpaced the Policy Index and returned 16.0 %, ranking 10th among peers. As discussed at the last meeting, the allocation to real estate was at the minimum of the target and equity was at the maximum of the target allocation. Ms. Heyel presented a memo addressing the short-term recommendation to revise the target asset allocation. The temporary allocation target will be as follows: 27.5% large cap equity, 17.5 % small cap equity, 20% international equity, 25% fixed income and 10% real estate. At the next meeting Segal Advisors will present an asset allocation study to discuss some alternative long term allocations based on the 7.75% assumption rate. Ms. Heyel presented a flash report as of January 31, 2011. The assets increased approximately \$400,000 for the month. As of January 31, 2011, the assets were valued at \$57.1 million.

Next, Ms. Heyel presented the Thrift Plan Report. Since this was the fourth quarter report, the new Prudential managed funds were not reflected in the report. However, Segal presented a separate handout with the new fund allocations chosen by participants. There was a decrease of approximately 3% to the money market account for the month and a half. As of February 16, 2011, the assets were valued at \$17.8 million.

## **III. RB Trust Investment Performance Review 4th Quarter End December 31, 2010:**

Mr. Cohen went through the report and stated that the fund was doing well as of December 31, 2010. He said it is the one separate account that the Plan has. He also said the fund manager Manning and Napier are already not investing in Sudan. Council member Pierzchala asked if there were any questions and there were none.

## **V. Actuarial Study Information:**

The Board talked to Mr. Clark from Principal via conference call. Mr. Cohen gave a brief overview that the Board asked for three items from Mr. Clark that were not included in the April 1, 2010 actuarial valuation report presented at the last meeting. The information requested was a ten year projection of the Annual Required Contribution (ARC) with and without the Employee Supplemental Contributions, the historical rate of returns of the Plan assets, and the impact of the Benefit Index on the City's funding ratio and unfunded actuarial liabilities. The first part of the chart reflected the annual required contribution without the employee supplemental contribution and the second was with the employee supplemental contributions. Over time the chart showed a cost saving between required and supplemental contributions. Mr. Vargas said there is a need to consider some long-term strategies for this. Councilmember Pierzchala said the Board needed to be proactive and would like to know what it would take to get the Plan fully funded in ten years. Mr. Cohen said that the Board was trying to make the Police Plan part of the supplemental formula and that the Board had already approved this earlier in the year. Next Mr. Clark reviewed the charts for the historical rate of returns of the Plan assets. He said that there was a nice recovery in 2010. Next, Mr. Clark reviewed the charts for the impact of the Benefit Index on the City's funding ratio and unfunded actuarial liabilities. Mr. Cohen said that Mr. Espinosa wants the Board to discuss purchasing annuities in the future when the timing is right and that the Board will discuss this at future meeting.

## **VI. Ethics Policy:**

This was tabled to the next meeting.

The meeting was adjourned at 12:00.

